

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05  
TRSE-00 SS-15 STR-05 OMB-01 CEA-01 IGA-02 CIAE-00  
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R 061501Z JAN 78  
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TO SECSTATE WASHDC 5503  
INFO AMCONSUL RIO DE JANEIRO  
AMCONSUL SAO PAULO

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PASS TREASURY

E.O. 11652: N/A  
TAGS: ETRD, EFIN, BR  
SUBJECT: GOB TAPS NEW SOURCES OF FOREIGN FINANCING

REF: A) BRASILIA 5748 B) JIDDA 8441

1. SUMMARY - IN DECEMBER 1977 BRAZIL CONCLUDED  
NEGOTIATIONS FOR A BOND ISSUE IN SWITZERLAND AND A LOAN  
IN SAUDI ARABI. THE GOB BOND ISSUE BROUGHT TOTAL BRAZILIAN  
BOND ISSUES ABROAD IN 1977 TO \$710 MILLION. THE LOAN FROM THE  
SAUDIS WAS RELATED TO A LOAN FROM THE IDB FOR AN ELECTRIC  
POWER PROJECT. THESE OPERATIONS REPRESENTED BRAZIL'S FIRST  
BORROWINGS IN THE SWISS AND MIDDLE EAST FINANCIAL  
MARKETS. THUS THEY WERE SIGNIFICANT STEPS IN GAINING  
ACCESS TO IMPORTANT NEW SOURCES OF FOREIGN FINANCING FOR  
BRAZIL. END SUMMARY.

2. THE BOND ISSUE IN SWITZERLAND WAS FOR 100 MILLION  
SWISS FRANCS OR APPROXIMATELY US\$35 MILLION EQUIVALENT. THE  
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MATURITY WAS 10 YEARS AND INTEREST RATE FIXED AT 5  
PERCENT PER ANNUM. THE OFFERING PRICE WAS 99.5 PERCENT  
OF THE FACE VALUE, GIVING A YIELD OF 5.06 PERCENT. THE  
GOB WAS THE BORROWER AND WAS PLEASED WITH THE TERMS,  
ESPECIALLY THE INTEREST RATE, WHICH WAS THE LOWEST RATE  
APPLIED TO ANY OF THE GOB BOND ISSUES IN 1977. THE  
OPERATION WAS COORDINATED BY SWISS BANK WITH THE

PARTICIPATION OF SEVERAL OTHER SWISS FINANCIAL INSTITUTIONS, INCLUDING CREDIT SWISSE.

3. BRAZIL'S FIRST BORROWING IN THE SWISS BOND MARKET CAME LESS THAN ONE MONTH AFTER A GOB BOND ISSUE IN JAPAN AND BROUGHT TO FOUR THE TOTAL OF GOB BOND ISSUES IN 1977. THE LATTER OPERATION AMOUNTED TO 20 MILLION YEN, US\$66 MILLION EQUIVALENT (AT 1 US\$ EQUALS 300 YEN) FOR 10 YEARS AT 7 PERCENT INTEREST PER ANNUM. IN MAY THE GOB BORROWED 150 MILLION DEUTSCHE MARK, OR US\$62 MILLIAN EQUIVALENT (AT 1 US\$ EQUALS 2.4 DM) FOR 7 YEARS AT 7.75 PERCENTINTEREST IN THE GERMAN BOND MARKET. THE GOB SOLD BONDS TOTALLING US\$85 MILLION FOR 5 YEARS AT 9 PERCENT IN NEW YORK IN JULY. IN ADDITION TO THE US\$248 MILLION EQUIVALENT RAISED BY THE GOB IN 1977, BRAZILIAN STATE ENTERPRISES ENGAGED IN 10 BOND OPERATIONS IN 1977 AMOUNTING TO US\$462 MILLION. THE COMBINED TOTAL OF BRAZILIAN BOND ISSUES IN 1977, US\$710 MILLION, COMPARES WITH ONLY US\$25 MILLION IN 1974, ZERO IN 1975, AND US\$269 MILLION IN 1976.

4. THE LOAN FROM SAUDI ARABIA WAS SIGNED ON DEC 10 AND AMOUNTS TO 194 MILLION SAUDI RIALS (US\$55 MILLION EQUIVALENT) FOR FINANCING PART OF AN EXPANSION PROJECT OF THE SAO FRANCISCO HYDROELECTRIC COMPANY (CHESP). THE LENDER IS THE SAUDI FUND FOR DEVELOPMENT AND THE GOB IS GUARANTOR. THE MATURITY OF THELOAN IS 20 LIMITED OFFICIAL USE

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YEARS, INCLUDING 5 YEARS GRACE PERIOD, AND THE INTEREST RATE IS 5 PERCENT. THE SAUDI LOAN IS A COFINANCING OPERATION NEGOTIATED PARALLEL TO A US\$97.7 MILLION LOAN FROM THE INTER-REGIONAL CAPITAL RESOURCES OF THE INTER-AMERICAN DEVELOPMENT BANK (IDB). THE IDB LOAN IS FOR 20 YEARS, INCLUDING 4 YEARS GRACE, AT 8.6 PERCENT INTEREST AND WAS APPROVED IN DEC 1976 AND SIGNED IN APRIL 1977. THE SAUDIS' LOAN WILL ACCOUNT FOR 13 PERCENT OF TOTAL PROJECT INVESTMENT EXPENDITURES, THE IDB LOAN FOR 24 PERCENT, THE BRAZILIAN NATIONAL DEVELOPMENT BANK FOR 4 PERCENT, AND 59 PERCENT (\$245 MILLION) WILL COME FROM CHESP'S OWN RESOURCES.

5. MINISTRY OF FINANCE OFFICIALS REPORT THAT THE TIME-LAPSE BETWEEN THE SIGNING OF THE IDB LOAN AND THE SAUDI LOAN RESULTED FROM NORMAL DELAYS INVOLVED IN WORKING OUT DETAILS WITH A NEW FOREIGN LENDER. ALSO ONE SPECIFIC FACTOR WAS THE QUESTION OF THE ARAB BOYCOTT. THIS ISSUE WAS RESOLVED WITH EXCLUSION OF ANY REFERENCE TO THE BOYCOTT IN THE LOAN CONTRACT. HOWEVER, THE GENERAL BIDDING SPECIFICATIONS ISSUED BY CHESP FOR THAT PART OF THE EXPANSION TO BE FINANCED BY THE SAUDI LOAN DO

INCLUDE THE REQUIREMENT THAT BIDDERS SUBMIT CERTIFICATION ATTESTING TO COMPLIANCE WITH ANY BOYCOTT REGULATIONS IN FORCE IN SAUDI ARABIA.

6. COMMENT - THE BORROWINGS IN SWITZERLAND AND SAUDI ARABIA ARE IMPORTANT STEPS BY THE GOB TO EXPAND BRAZIL'S ACCESS TO FOREIGN FINANCING. THE TERMS ON BOTH OPERATIONS ARE NOTABLY FAVORABLE AND ADD TO BRAZIL'S OVERALL CREDIT-WORTHINESS IN INTERNATIONAL MARKETS... WHILE ADDITIONAL TRANSACTIONS IN THE SWISS BOND MARKET AND WITH THE SAUDI DEVELOPMENT FUND ARE REPORTEDLY NOT CURRENTLY UNDER CONSIDERATION, BRAZIL CAN BE EXPECTED TO CONTINUE TO PURSUE OPPORTUNITIES TO DIVERSIFY ITS FOREIGN BORROWING IN 1978. IN PARTICULAR, THE SHARP INCREASE IN BOND ISSUES IN 1977 REFLECTS GOB DECISIONS IN MID-1976 TO LIMITED OFFICIAL USE

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ENTER INTERNATIONAL BOND MRKETS IN ORDER TO TAKE ADVANTAE OF IMPROVING ACCESSIBILITY, MATURITIES, AND INTEREST COSTS. THIS GENERAL POLICY THRUST AND EFFORTS TO EXPAND UPON THE RECENT SUCCESSFUL NEGOTIATION IN SAUDI ARABIA WILL CONTINUE EVIDENT IN BRAZIL'S FOREIGN BORROWING STRATEGY IN THE COMING YEAR. END COMMENT.

7. EMBASSY IS FORWARDING TO US DEP COMMERCE COPY OF GENERAL BIDDING SPECIFICATONS FOR SAUDI-FINANCED PORTION OF CHESP PROJECT.  
JOHNSON

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## Message Attributes

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